

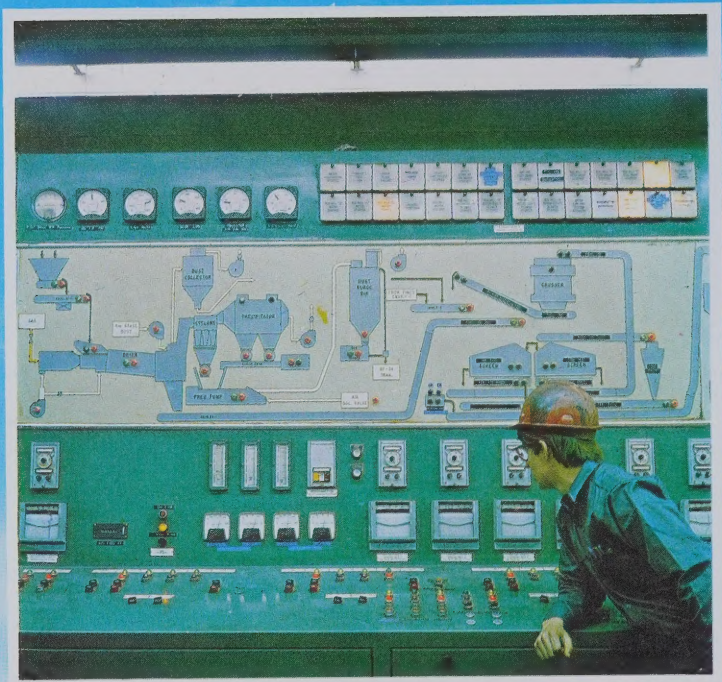
# ANNUAL REPORT

*for the year ended December 31, 1972*

STEEP ROCK IRON MINES LIMITED









## Semi-Annual Report

JUNE 30, 1972

## CONSOLIDATED STATEMENT OF EARNINGS

Six Months Ended June 30, 1972

(with comparative figures for 1971)

	1972	1971
REVENUE — tons .....	748,675	686,952
INCOME		
Gross operating revenues	\$ 9,228,019	\$ 8,166,764
Royalty income .....	1,479,442	2,476,389
Investment income .....	208,528	206,889
	<u>10,915,989</u>	<u>10,850,022</u>
Earnings before income taxes and extraordinary item .....	389,159	1,897,546
Income taxes .....	88,000	613,000
Earnings before extraordinary item .....	<u>301,159</u>	<u>1,284,546</u>
Extraordinary item		
Income tax credit arising from carry forward of prior years' write-offs ..	88,000	613,000
Net earnings for the period	\$ 389,159	\$ 1,897,546
PER SHARE		
Earnings before extraordinary item .....	<u>\$0.04</u>	<u>\$0.16</u>
Net earnings for the period .....	<u>\$0.05</u>	<u>\$0.24</u>

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1972

(with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS		
From operations		
Earnings before income taxes and extraordinary item .....	\$ 389,159	\$ 1,897,546
Add expenses not requiring an outlay of working capital during the period		
Depreciation .....	1,133,303	1,038,612
Depletion .....	141,844	110,810
Amortization of deferred development expenditures	691,807	547,991
Net reduction in deferred overburden removal costs	2,726,520	385,211
Other .....	—	57,950
Total funds from operations .....	5,082,633	4,038,120
Sale of fixed assets .....	—	124,846
Payment received on sale of interest in mining properties ..	50,000	50,000
	<u>5,132,633</u>	<u>4,212,966</u>
APPLICATION OF FUNDS		
Additions to mining properties	49,844	34,881
Additions to fixed assets and housing .....	62,990	572,944
Deferred development expenditures .....	—	1,347
Increase (decrease) in mortgages and sale agreements receivable	(4,192)	19,282
Long-term debt paid		
Mortgage bond principal transferred to current liabilities .....	—	1,582,600
Royalty loan .....	—	744,769
Mortgages payable .....	25,179	22,218
Dividends .....	1,209,548	—
Other .....	218,059	185,415
	<u>1,561,428</u>	<u>3,163,456</u>
Increase in working capital .....	3,571,205	1,049,510
Working capital at beginning of year .....	10,611,688	9,701,524
WORKING CAPITAL at end of period .....	<u>\$14,182,893</u>	<u>\$10,751,034</u>

(subject to audit and year-end adjustments)

## STEEP ROCK IRON MINES LIMITED

## TO THE SHAREHOLDERS

Pellet production for the six months was 743,000 tons, or 60,000 tons more than for the same period in 1971.

Shipments of 748,675 tons exceeded last year by 61,723 tons. Shipments for the full year are expected to approximate 1,465,000 tons.

Earnings before income taxes and extraordinary item were \$389,159, compared with \$1,897,546 for the first half of 1971. Revenue from sale of ore was up \$1,061,000 (the largest contributor being increased shipments). Offsetting factors were: decreased royalties (\$997,000); an increase in cost of sales (\$1,381,000, due to increased cost of mining additional ore and higher cost of stripping); and higher depreciation and depletion charges. Revenue was adversely affected by the lower value of the U.S. dollar in terms of the Canadian dollar. The re-scheduling of all shipments on the Detroit Steel contract to the second half-year also lowered first-half earnings to some extent, but this deferment should benefit earnings during the second half.

Working capital at \$14,182,893 was up \$3,431,859 from June 30, 1971, reflecting a higher inventory of ore (which is expected to be reduced to normal by year-end).

A dividend of fifteen cents per share was paid July 28th, 1972.

August 8, 1972

F. R. JONES, PRESIDENT

(subject to audit and year-end adjustments)

**STEEP ROCK IRON MINES LIMITED**  
ATIKOKAN, ONTARIO





#### BOARD OF DIRECTORS

HON. W. M. BENIDICKSON, P.C.	<i>Ottawa, Ontario</i>
†*NEIL EDMONSTONE, F.C.I.S.	<i>Barrie, Ontario</i>
†*A. R. GALE	<i>Greenwich, Connecticut</i>
G. R. HEFFERNAN	<i>Whitby, Ontario</i>
† R. M. HOGARTH	<i>Toronto, Ontario</i>
†*F. RAYMOND JONES, P. Eng.	<i>Atikokan, Ontario</i>
ROBERT L. KAISER	<i>Grosse Pte. Farms, Michigan</i>
LAURENCE J. LAMB, P.Eng.	<i>Atikokan, Ontario</i>
MARK T. McKEE	<i>Oxford, Connecticut</i>
*JOHN N. PATERSON	<i>Thunder Bay, Ontario</i>
CLARE E. WHITE, P.Eng.	<i>Victoria, British Columbia</i>
*Member of the Executive Committee	
†Member of the Audit Committee	

#### OFFICERS

JOHN N. PATERSON	<i>Chairman of the Board</i>
F. RAYMOND JONES, P.Eng.	<i>President &amp; Chief Executive Officer</i>
LAURENCE J. LAMB, P.Eng.	<i>Vice President &amp; General Manager</i>
JOHN A. CAMPBELL, Q.C.	<i>Secretary</i>
LOUIS ZUCCHIATTI, R.I.A.	<i>Treasurer &amp; Controller</i>
JOHN P. DUGGAN, C.A.	<i>Assistant Treasurer</i>

#### AUDITORS

CLARKSON, GORDON & CO.	<i>Thunder Bay, Ontario</i>
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#### TRANSFER AGENTS

CROWN TRUST COMPANY	<i>Toronto, Ontario</i>
and	
CENTRAL NATIONAL BANK OF CLEVELAND	<i>Cleveland, Ohio</i>

#### GENERAL COUNSEL

SEED, GREER, LONG, CAMPBELL & HOWARD	<i>Toronto, Ontario</i>
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#### CONSULTING GEOLOGIST

M. W. BARTLEY, PhD.	<i>Thunder Bay, Ontario</i>
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#### DIVISION MANAGERS

A. K. BAYLES	<i>Metallurgical</i>
G. K. EOLL	<i>Employee Relations</i>
C. F. MacIVER	<i>Maintenance &amp; Services</i>
B. W. TAYLOR	<i>Mine</i>
L. ZUCCHIATTI	<i>Accounting</i>

#### ASSISTANT TO THE PRESIDENT

S. G. HANCOCK	
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#### OPERATIONS AND EXECUTIVE OFFICES

<i>Atikokan, Ontario</i>
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#### FRONT COVER

South Roberts Open Pit with Errington Underground and shop area in the background, 1972.

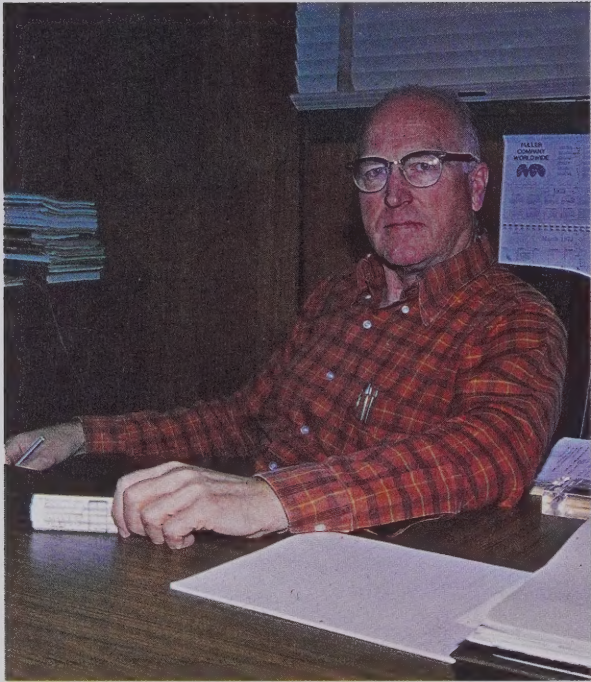
#### INSIDE FRONT COVER

Loader filling 75-ton ore car with pellets from Steep Rock's pellet plant.

Control room of Steep Rock's pellet plant.

#### ANNUAL MEETING

The Annual General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held at the Head Office of the Company at Atikokan, Ontario, on the 11th day of April, 1973, at the hour of 10:00 o'clock in the forenoon.



F. RAYMOND JONES, PRESIDENT

## **PRESIDENT'S LETTER TO THE SHAREHOLDERS**

Despite record pellet production, NET EARNINGS of \$815,746 for 1972 are substantially below the figure of \$3,214,461 for 1971. Royalty income dropped \$2.0 million. Cost of providing ore for the Detroit Steel contract increased \$0.9 million. Although there was no price increase to offset substantial increases in cost of labor, materials and freight, the total of other costs was \$0.5 million below that for the preceding year.

TOTAL FUNDS FROM OPERATIONS were \$4.4 million. The \$4.1 million decrease from last year was due to the drop in earnings referred to above and an increase in stripping of waste rock to expose ore for future mining as set out in the Consolidated Statement of Source and Application of Funds.

WORKING CAPITAL at year-end was adequate at \$10,004,167, a decrease of \$607,521 from the previous year-end.

PRODUCTION of pellets was again increased, to 1,445,400 tons, or 44,500 tons more than in 1971. Shipments totalled 1,468,575 tons, of which pellets comprised 1,449,385 tons and red ore 19,190 tons.

ORE RESERVES available to Steep Rock in the Hogarth, Roberts, and "C" ore zones, and extractable by open pit mining, total 40 million tons, of which 30 million tons are in the "assured" and "reasonably assured" categories. Underground ore reserves calculated to be marginally economic under current conditions total 71 million tons, of which 1.75 million tons are in the "assured" category.

### **LAKE ST. JOSEPH**

The bulk superconcentrate sample produced from Lake St. Joseph ore early in 1971 is being held pending proof of a thoroughly acceptable reduction process. It is expected that the reduction tests will proceed later in 1973. It is also anticipated that a new feasibility study will be undertaken, preparatory to seeking financing for the major project.



## UNGAVA

No groundwork was done on the Ungava Iron Ore concessions in which Steep Rock has an interest. Based on an airborne geophysical mapping project completed in 1972, a small base metals exploration program is planned in 1973 in participation with Lone Star Mining & Exploration, who are proceeding under an agreement with Premium Iron Ores, the majority co-holder of the iron ore concessions. Others may also participate.

## APPRECIATION AND OUTLOOK

The President again wishes to thank our Employees for their efforts, which alone have made possible the sustained increase in output and helped keep production costs in line. The advice and loyal support of our Officers and Directors is also gratefully acknowledged.

The high cost to date of mining ore from underground to make the 250,000 tons per year of pellets for the Detroit Steel contract could, if continued, result in some losses on that contract. Improvement in this cost is expected.

While the economics of the present mining operations are difficult, we can look forward with optimism to future developments, at Steep Rock as well as at Lake St. Joseph and Ungava.

The lessee of our "C" ore zone announced in 1972 that mining operations will terminate in 1976. The announcement is not legal notification under the terms of the lease, a year's notice only being required. Unless the lessee changes his plans, considered to be unlikely, Steep Rock can look forward to mining the "C" zone after 1976, with an expected reduction in mining costs to more than offset the cessation of royalties.

Meanwhile prospects for 1973 point to earnings at a level similar to 1972. A moderate increase in working capital is predicted.

On behalf of the Board

F. R. JONES

PRESIDENT

February 21, 1973





STEEP ROCK IRON MINES LIMITED  
(INCORPORATED UNDER THE LAWS OF ONTARIO)  
AND ITS SUBSIDIARY COMPANIES

# **CONSOLIDATED BALANCE SHEET** **AS AT DECEMBER 31, 1972**

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1971)

## **ASSETS**

### **CURRENT**

	1972	1971
Cash and deposit certificates .....	\$ 64,583	\$ 3,158,797
Short term investments at cost which approximates market value .....	4,561,365	2,650,000
Accounts receivable .....	4,728,232	4,274,032
Ore (finished and in process), at the lower of cost or net realizable value .....	3,847,664	3,487,080
Supplies at average cost .....	1,190,584	1,151,647
Prepaid expenses .....	175,521	39,784
Total current assets .....	14,567,949	14,761,340

### **FIXED ASSETS AND HOUSING**

Mining properties (Note 3) .....	4,953,464	4,837,723
Less accumulated depletion .....	2,525,064	2,331,478
	2,428,400	2,506,245
Plant, buildings and equipment, at cost .....	52,989,812	52,862,975
Less accumulated depreciation .....	27,084,441	25,022,728
	25,905,371	27,840,247

### **Housing**

Properties owned, at less than cost and less accumulated depreciation 1972 - \$340,062; 1971 - \$290,813 .....	823,382	925,852
Mortgages and sale agreements receivable .....	366,933	397,128

1,190,315	1,322,980
29,524,086	31,669,472

### **OTHER ASSETS AND DEFERRED CHARGES**

Shares in and advances to other mining companies, at cost (Note 4) .....	596,784	596,784
Deferred development expenditures (unamortized portion) .....	9,088,623	10,215,115
Deferred overburden removal (stripping) costs .....	7,170,225	6,645,348
Sundry .....	95,603	60,432
	16,951,235	17,517,679
	\$61,043,270	\$63,948,491





## LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1972</u>	<u>1971</u>
<b>CURRENT</b>		
Accounts payable and accrued liabilities .....	\$ 1,915,156	\$ 1,469,238
Accrued interest .....	111,774	126,840
Mortgage bond principal due within one year .....	<u>2,536,852</u>	<u>2,553,574</u>
Total current liabilities .....	<u>4,563,782</u>	<u>4,149,652</u>
<b>DEFERRED</b>		
Advance payments received on sale of interest in mining properties .....	<u>225,770</u>	<u>200,770</u>
<b>LONG TERM DEBT</b>		
6% First mortgage sinking fund bonds, Series A, due December 1, 1981 - U.S. \$19,905,000 (excluding 1973 principal instalment of U.S. \$2,548,000 included in current liabilities) (Notes 1(c) and 5) .....	20,402,500	23,301,200
Mortgages payable on employee housing .....	<u>284,539</u>	<u>336,388</u>
	<u>20,687,039</u>	<u>23,637,588</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital		
Authorized		
10,000 preference shares of \$100 each		
10,666,666 common shares of \$1 each		
Issued		
8,063,652 common shares .....	8,063,652	8,063,652
Contributed surplus .....	3,674,675	3,674,675
Retained earnings (Note 5) .....	<u>23,828,352</u>	<u>24,222,154</u>
	<u>35,566,679</u>	<u>35,960,481</u>
	<u>\$61,043,270</u>	<u>\$63,948,491</u>
On behalf of the Board		
N. Edmonstone, Director		
F. R. Jones, Director		

(See accompanying notes to consolidated financial statements)



STEEP ROCK IRON MINES LIMITED  
AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1972

(WITH COMPARATIVE FIGURES FOR 1971)

	<u>1972</u>	<u>1971</u>
<b>INCOME</b>		
Gross operating revenues .....	\$18,729,647	\$18,329,692
Royalty income (Note 2(a)) .....	2,968,169	4,937,302
Investment income .....	422,871	433,538
	<u>22,120,687</u>	<u>23,700,532</u>
<b>COSTS AND EXPENSES</b>		
Operating costs, other than those shown below .....	15,642,984	14,417,971
Administrative and corporate expenses .....	695,851	765,889
Interest on bonds (and in 1971 on royalty loan) .....	1,473,554	1,706,674
Depreciation .....	2,263,282	2,258,871
Depletion .....	193,586	281,751
Amortization of deferred development expenditures .....	1,121,674	1,131,634
Sundry exchange gains .....	(85,990)	(76,719)
	<u>21,304,941</u>	<u>20,486,071</u>
EARNINGS before income taxes and extraordinary item .....	815,746	3,214,461
Income taxes (Note 6) .....	78,000	1,145,000
EARNINGS before extraordinary item .....	737,746	2,069,461
<b>EXTRAORDINARY ITEM</b>		
Income tax credit arising from carry forward of prior years' write-offs (Note 6) .....	78,000	1,145,000
NET EARNINGS FOR THE YEAR .....	<u>\$ 815,746</u>	<u>\$ 3,214,461</u>
<b>PER SHARE</b>		
Earnings before extraordinary item .....	<u>\$0.09</u>	<u>\$0.26</u>
Net earnings for the year .....	<u>\$0.10</u>	<u>\$0.40</u>

(See accompanying notes to consolidated financial statements)



STEEP ROCK IRON MINES LIMITED  
AND ITS SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1972

(WITH COMPARATIVE FIGURES FOR 1971)

	<u>1972</u>	<u>1971</u>
Balance at beginning of year .....	\$24,222,154	\$22,217,241
Add net earnings for the year .....	<u>815,746</u>	<u>3,214,461</u>
	25,037,900	25,431,702
 Deduct dividend of 15¢ per share .....	 <u>1,209,548</u>	 <u>1,209,548</u>
Balance at end of year .....	<u>\$23,828,352</u>	<u>\$24,222,154</u>

(See accompanying notes to consolidated financial statements)





STEEP ROCK IRON MINES LIMITED  
AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1972

(WITH COMPARATIVE FIGURES FOR 1971)

	1972	1971
<b>SOURCE OF FUNDS</b>		
From operations		
Earnings before income taxes and extraordinary item	\$ 815,746	\$ 3,214,461
Add expenses not requiring an outlay of working capital during the period		
Depreciation	2,263,282	2,258,871
Depletion	193,586	281,751
Amortization of deferred development expenditures	1,121,674	1,131,634
Net reduction in deferred overburden removal costs	—	1,496,910
Other	4,818	112,049
Total funds from operations	4,399,106	8,495,676
Sale of fixed assets	19,300	137,117
Payment received on sale of interest in mining properties	50,000	50,000
Other	—	10,220
	<u>4,468,406</u>	<u>8,693,013</u>
<b>APPLICATION OF FUNDS</b>		
Additions to mining properties	140,741	73,389
Additions to fixed assets and housing	226,650	687,315
Deferred development expenditures	—	25,699
Net addition to deferred overburden removal costs	524,877	—
Increase (decrease) in mortgages and sale agreements receivable	(11,609)	48,650
Long-term debt paid or included in current liabilities		
Mortgage bonds	2,898,700	4,394,300
Royalty loan	—	1,296,779
Mortgages payable	51,849	47,169
Dividends	1,209,548	1,209,548
Other	35,171	—
	<u>5,075,927</u>	<u>7,782,849</u>
Increase (decrease) in working capital	(607,521)	910,164
Working capital at beginning of year	10,611,688	9,701,524
<b>WORKING CAPITAL at end of year</b>	<u>\$10,004,167</u>	<u>\$10,611,688</u>
<b>Changes in components of working capital</b>		
Increase (decrease) in current assets		
Cash	\$ (3,094,214)	\$ 2,729,163
Short term investments	1,911,365	(4,193,533)
Accounts receivable	454,200	1,531,075
Ore	360,584	2,312,594
Supplies	38,937	(88,434)
Prepaid expenses	135,737	(99,172)
	<u>(193,391)</u>	<u>2,191,693</u>
Decrease (increase) in current liabilities		
Accounts payable and accrued liabilities	(445,918)	242,966
Accrued interest	15,066	14,725
Mortgage bond principal due within one year	16,722	(1,539,220)
	<u>(414,130)</u>	<u>(1,281,529)</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<u>\$ (607,521)</u>	<u>\$ 910,164</u>

(See accompanying notes to consolidated financial statements)



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 1972

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of consolidation**

The accompanying statements are drawn up on a consolidated basis to include the accounts of the Company and its wholly owned subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited and Don Park Homesites Limited.

**(b) Statement presentation of joint venture operations**

Under agreements entered into in 1965 (covering a period of 22 years) certain of the Company's open pit ore reserves at Steep Rock Lake were leased to a joint venture participant, and the Company was appointed operator to mine and process the ore on the participant's behalf. As in prior years, the 1972 financial statements have been drawn up to reflect in "gross operating revenues" the value of the ore produced (less the profit allocation to the joint venture participant), and in "costs and expenses" the full costs of mining and processing the ore.

**(c) Exchange translation**

U.S. dollar current assets and current liabilities (including long-term debt maturing within one year) are translated to Canadian dollars on the basis of year-end exchange rates (U.S. \$1 = Can. \$.995 at December 31, 1972). Long-term debt (mortgage bonds) has been translated on the basis of U.S. \$1 = Can. \$1.025, this being the rate adopted following the unpegging of the Canadian dollar on May 31, 1970.

**(d) Depreciation, depletion and amortization**

Depreciation is provided on the straight-line basis at rates designed to write off the cost (less salvage value) of the related assets over their estimated useful lives. The pellet plant, which constitutes the Company's major fixed asset, is being depreciated on the straight-line basis over the term of the joint venture agreement referred to in Note 1(b).

Depletion of mining properties, and amortization of deferred development expenditures, are provided on the basis of tons of ore mined or shipped in relation to the estimated assured or reasonably assured ore reserves of presently developed mines.

Deferred overburden removal (stripping) costs are charged to operations on the basis of tons of ore mined.

**2. NOTE RE 1972 OPERATIONS****(a) Royalty income**

The Company's "C" ore zone is leased to Caland Ore Company Limited in consideration for the payment of annual royalties by Caland based on a percentage of the market value of ore produced. The lease agreement specifies minimum tonnages on which royalties shall be payable, which minimums amounted to 3,000,000 tons in 1971, reduced to 2,000,000 tons annually for 1972 and later years. The decrease in royalty revenue from \$4,937,302 in 1971 to \$2,968,169 in 1972 is primarily attributable to this reduction in minimum royalty tonnage.

The minimum tonnages referred to above are subject to further downward adjustment under certain circumstances as specified in the agreement. The Company's 1971 financial statements referred to a balance of \$408,771 carried as royalty receivable in the Company's

accounts, the collectibility of which was in question since Caland were contending that circumstances for the year 1971 were such as to result in a downward adjustment in the minimum royalty payable for that year. This matter was satisfactorily resolved in Steep Rock's favour during 1972, and no adjustment of the earnings originally reported for the 1971 year is required.

The lease may be terminated by Caland on December 31st in any year upon giving one year's advance notice. While no such legal notification has been received as yet, Caland announced during 1972 that they expect to terminate mining operations in 1976.

**(b) Cost of ore**

Up to December 31, 1971 a contract covering 17 per cent of the Company's pellet output had been filled from low cost stockpiles of ore. Beginning in 1972 a major portion of this contract is being filled from ore produced from underground mining. The cost of this ore is substantially greater and earnings from this contract have been reduced accordingly.

**3. MINING PROPERTIES**

This asset is made up as follows:

Properties at Steep Rock Lake (purchase cost of \$2,459,456 plus a valuation adjustment made in 1943 of \$1,926,937) .....	\$4,386,393
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Properties at Lake St. Joseph (purchase cost of \$276,711 plus deferred exploration and development expenditures of \$464,590) .....	741,301
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Less payment received for interest acquired by joint venture participant in certain of such properties to December 31, 1972 (see below) .....	174,230	567,071
		<u>\$4,953,464</u>

Under the joint venture arrangements referred to in Note 1(b) the joint venture participant is entitled to acquire an increasing proportion of certain of the Company's Lake St. Joseph claims, the rate of acquisition being related to the volume of ore shipped under the main contract.

Further development of the properties at Lake St. Joseph is dependent upon satisfactory arrangements for future production and sale being made with one or more steel companies.

**4. SHARES IN, AND ADVANCES TO, OTHER MINING COMPANIES**

The amount of \$596,784 shown under this balance sheet classification represents the cost of the Company's shareholding in, and advances to, Champlain Mining Corporation and International Iron Ores Limited. Through these investments the Company has an interest in certain iron ore deposits on the west side of Ungava Bay. While no substantial development work at the properties has been carried out for some years, it is expected that some additional exploration work will be carried out in 1973. The recovery of the Company's investment is dependent upon the successful future development of an economic mining operation and the obtaining of adequate financing.



#### 5. MORTGAGE BONDS AND RELATED DIVIDEND RESTRICTIONS

The trust indenture relating to the first mortgage sinking fund bonds (as amended in 1971) requires fixed principal repayments of U.S. \$2,548,000 on December 1 of each year, together with additional principal payments (calculated at the rate of U.S. \$1.41 per ton) to the extent that shipments of pellets to the joint venture participant in any twelve month period ending September 30 exceed 1,100,000 tons.

Under the terms of the indenture the Company may not effect any reduction of, or redeem any of its capital stock or declare any dividends on any shares of its capital stock where (A) consolidated working capital (which is defined to exclude a deduction for bond sinking fund instalments due within one year, but to include a deduction for one year's interest), is less than, or would thereby be reduced below the following amounts: 1972-1978 inclusive — U.S. \$10,000,000; 1979 — U.S. \$7,500,000; 1980 — U.S. \$5,000,000; or (B) the cumulative amounts applied to capital stock reduction or dividend declaration subsequent to January 1, 1970 exceed the sum of (i) consolidated net income (as defined) since that date and (ii) a specified amount related to the period in which the capital reduction or dividend declaration takes place. The specified amount is U.S. \$2,000,000 during the period 1970-1978, U.S. \$4,000,000 during 1979, U.S. \$6,000,000 during 1980, and U.S. \$8,000,000 thereafter.

#### 6. INCOME TAXES

The Company follows the tax allocation method of accounting for income taxes. There is no current liability for income taxes for 1972 as taxes of \$78,000 otherwise payable for 1972 are offset by tax credits arising from the carry forward of prior years' write-offs not previously claimed for tax purposes. At December 31,

1972 the amount of prior years' write-offs remaining for carry forward against future years' income is estimated at approximately \$3,850,000.

#### 7. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The unfunded past service pension liability of the Company is estimated at \$1,081,000 at December 31, 1972 as compared with \$1,145,000 at December 31, 1971. The present liability will be paid, and charged to income, over periods ranging up to 17 years.

(b) Under an agreement dated March 15, 1949 relating to the diversion of the Seine River, the Company is committed to make payments to the Ontario Hydro-Electric Power Commission of \$92,357 annually until November 1, 1989.

(c) Minimum annual rentals under equipment leases presently in effect amount to \$405,621 in 1973, \$335,017 in 1974, \$324,931 in each of the years 1975 to 1978 and \$191,961 in 1979.

(d) The contingent liability with respect to guarantees of mortgages on employees' housing is estimated at approximately \$100,000. The Company is also committed under certain outstanding sale agreements to repurchase houses in the event of employee termination, the maximum commitment at December 31, 1972 being estimated at approximately \$336,000.

(e) A claim has been filed against the Company in the amount of \$363,000 with respect to the construction of the pellet plant. Counsel is of the opinion that this action is unlikely to result in any material liability to the Company.

#### 8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration of directors and senior officers amounted to \$236,181 in 1972 (\$210,013 in 1971).

Town of Atikokan, home of Steep Rock employees.

Photo by Hunter





## AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
STEEP ROCK IRON MINES LIMITED



We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited and its subsidiary companies as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THUNDER BAY, ONTARIO,  
February 21, 1973

CLARKSON, GORDON & CO.  
CHARTERED ACCOUNTANTS

Re-opening the Hogarth Open Pit — November, 1972

Photo by Wagner





## 10 YEARS IN REVIEW\*

	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>
	(Thousands of Dollars)									
Income										
Gross operating revenues ....	18,730	18,330	17,967	17,624	15,100	8,801	9,150	10,325	10,519	8,520
Royalty and other income ..	3,391	5,371	5,415	4,397	4,712	4,202	4,053	4,491	3,883	3,798
	<u>22,121</u>	<u>23,701</u>	<u>23,382</u>	<u>22,021</u>	<u>19,812</u>	<u>13,003</u>	<u>13,203</u>	<u>14,816</u>	<u>14,402</u>	<u>12,318</u>
Costs and expenses										
Operating costs, etc. ....	16,247	14,991	14,597	12,554	9,651	6,288	7,361	8,648	7,023	5,897
Interest .....	1,474	1,707	1,888	2,066	2,168	932	448	511	662	784
Depreciation, depletion and amortizations .....	3,584	3,789	4,096	4,231	2,685	3,012	2,461	2,068	1,955	1,468
	<u>21,305</u>	<u>20,487</u>	<u>20,581</u>	<u>18,851</u>	<u>14,504</u>	<u>10,232</u>	<u>10,270</u>	<u>11,227</u>	<u>9,640</u>	<u>8,149</u>
Earnings before income taxes and extraordinary items .....	816	3,214	2,801	3,170	5,308	2,771	2,933	3,589	4,762	4,169
Income taxes .....	78	1,145	990	1,304	2,382	1,024	1,111	1,407	1,142	383
Earnings before extraordinary items .....	<u>738</u>	<u>2,069</u>	<u>1,811</u>	<u>1,866</u>	<u>2,926</u>	<u>1,747</u>	<u>1,822</u>	<u>2,182</u>	<u>3,620</u>	<u>3,786</u>
Extraordinary items										
Income tax credit arising from carry forward of prior years' write-offs .....	78	1,145	372	—	—	—	—	—	—	—
Exchange credits less ex- change losses (net of related tax) .....	—	—	1,300	—	—	—	—	—	—	—
Gain (provision for loss) on sale of investments .....	—	—	545	(452)	—	400	(400)	—	—	—
Write-off of land and plant facilities no longer required (net of related tax) .....	—	—	(483)	—	(217)	—	—	—	—	—
Write-off of deferred devel- opment expenditures (net of related tax) .....	—	—	—	(35,448)	—	—	—	—	—	—
Financing costs .....	—	—	—	—	—	—	(583)	—	—	—
	<u>78</u>	<u>1,145</u>	<u>1,734</u>	<u>(35,900)</u>	<u>(217)</u>	<u>400</u>	<u>(983)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net earnings (loss) for the year .....	<u>816</u>	<u>3,214</u>	<u>3,545</u>	<u>(34,034)</u>	<u>2,709</u>	<u>2,147</u>	<u>839</u>	<u>2,182</u>	<u>3,620</u>	<u>3,786</u>
Per share										
Earnings before extra- ordinary items .....	0.09	0.26	0.22	0.23	0.36	0.22	0.23	0.27	0.45	0.47
Net earnings for the year	0.10	0.40	0.44	(4.22)	0.34	0.27	0.10	0.27	0.45	0.47
Dividends .....	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.25	0.20
Iron ore and pellets Tons (000)										
Sales .....	1,469	1,415	1,501	1,563	1,440	1,004	1,095	1,264	1,241	1,033
Royalty ore .....	1,922	3,000	3,000	2,225	2,500	2,326	2,083	2,446	2,001	2,003
Total tons .....	<u>3,391</u>	<u>4,415</u>	<u>4,501</u>	<u>3,788</u>	<u>3,940</u>	<u>3,330</u>	<u>3,178</u>	<u>3,710</u>	<u>3,242</u>	<u>3,036</u>

\* 1969 and prior years' results have been restated to give effect to retroactive changes in depletion, depreciation and deferred income taxes and to certain changes in revenue and expense classifications





Middle arm of Steep Rock Lake, looking north, 1972. Errington Underground mine in foreground, Roberts Open Pit centre and Pellet Plant in background.



